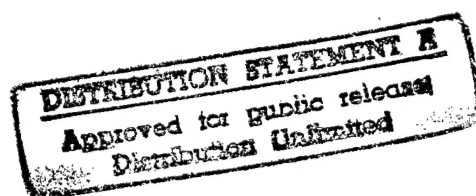

January 1998

PUBLIC-PRIVATE COMPETITIONS

Processes Used for C-5 Aircraft Award Appear Reasonable



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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-278991

January 20, 1998

The Honorable Strom Thurmond
Chairman
The Honorable Carl Levin
Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable Floyd Spence
Chairman
The Honorable Ronald Dellums
Ranking Minority Member
Committee on National Security
House of Representatives

This report responds to one of several reporting requirements contained in the National Defense Authorization Act for Fiscal Year 1998, relating to depot maintenance activities. Appendix I lists the depot maintenance reporting requirements contained in the act. As required, we reviewed the Air Force's solicitation and selection of a source for C-5 aircraft depot maintenance being performed at the closing San Antonio Air Logistics Center. This report provides our assessment of whether the (1) procedures used to conduct the C-5 competition provided substantially equal opportunity for the public and private offerors to compete for the workload without regard to work performance location, (2) procedures complied with the requirements of all applicable provisions of law and the Federal Acquisition Regulation (FAR), and (3) C-5 award results in the lowest total cost to the Department of Defense (DOD) for performance of the workload.

Background

As a result of a 1995 Base Realignment and Closure (BRAC) Act decision, the San Antonio and Sacramento Air Logistics Centers, including their maintenance depots, are to close by the year 2001. To mitigate the impact of the closings on the local communities and employees, the administration announced its intention to maintain employment levels by privatizing the depots' workloads in place. The Air Force followed by announcing a strategy to privatize-in-place five prototype depot maintenance workloads at the two closing centers. Since then, there has been a continuing debate between Congress and DOD over where and by whom the workloads at the closing depots would be performed. Central to

this debate are concerns about the excess facility capacity that exists at the Air Force's three remaining depots and the legislative requirement that workloads exceeding \$3 million dollars in value be subject to a public-private competition before being moved to the private sector. Appendix II provides a more detailed description of the closure history for the two logistics centers.

In response to congressional concerns regarding the appropriateness of its privatization-in-place plans, the Air Force revised its strategy to allow the public depots to participate in public-private competitions for the closing depot workloads. Congress included provisions in the fiscal year 1998 Authorization Act that require us to review and report on the process, procedures, and results of these competitions. The C-5 aircraft depot maintenance workload was the first of such competitions.

On February 11, 1997, the Air Force, Aircraft Directorate at Kelly Air Force Base issued a request for proposals for the purpose of conducting a public-private competition for the C-5 aircraft business area workload being performed at the closing San Antonio Air Logistics Center. The Air Force received proposals from private sector offerors and from one public offeror—the Air Force's Warner Robins Air Logistics Center. Following technical and cost evaluations, the Air Force selected Warner Robins to perform the C-5 workload on the basis that its proposal represented the lowest total evaluated cost to the government.

Results in Brief

Our assessment of the issues required under the 1998 Defense Authorization Act relating to the C-5 aircraft competition concluded that (1) the C-5 competition procedures provided an equal opportunity for public and private offerors to compete without regard to where work could be performed; (2) the procedures did not appear to deviate in any material respect from the applicable laws or the FAR; and (3) based on Air Force assumptions and conditions at the time of award, the award resulted in the lowest total cost to the government. A discussion of these conclusions follows, with a detailed description and assessment of the competition in appendix III.

C-5 Competition Placed No Limitation on Performance Location

The Air Force's procedures provided an equal opportunity for public and private offerors to compete for the C-5 workload without regard to where the work could be performed. Both public and private offerors acknowledged that the solicitation contained no limitations on location of performance. Since the San Antonio facilities were designed to support C-5 depot maintenance, the private offerors stated that the site had a natural advantage that they found attractive in competing for the workload. Therefore, the private offerors stated they proposed performing the C-5 workload at San Antonio. Because the competition placed no limitation on the location, the Warner Robins depot—the public offeror—was able to propose the use of its facilities.

Competition Procedures Complied With Applicable Laws and Acquisition Regulations

In assessing the C-5 competition's compliance with applicable laws and regulations, we reviewed the solicitation, proposal evaluation, and award in the context of applicable laws and regulations. This review included examining documents, reviewing processes and procedures, and conducting discussions with cognizant Air Force and DOD officials. We also assessed several specific concerns raised by the participants. We found no reason to conclude that the procedures used in selecting the successful offeror deviated in a material way from applicable laws or relevant provisions of the FAR.

Competition Procedures

The Air Force issued a competitive solicitation that provided for the participation of a public sector depot. Pursuant to its Depot Competition Procedures, the Air Force issued the solicitation in accordance with FAR part 12, which prescribes the policies and procedures for the acquisition of commercial items, and FAR part 15, which sets forth the source selection procedures for competitively negotiated acquisitions. The solicitation called for proposals from public and private sector sources for the C-5 business area workload currently being performed at the closing San Antonio Air Logistics Center at Kelly Air Force Base. The solicitation provided for award to the public sector source if its proposal conformed to the solicitation requirements, showed it had the necessary technical capabilities, and represented the lowest total evaluated cost over the life of the requirement. Proposals were evaluated in accordance with management criteria, a risk assessment, cost criteria, and other general considerations.

Applicable Laws and Regulations

Several statutes govern the use of public-private competitions for the performance of depot workloads. In particular, 10 U.S.C. 2469 provides for

the use of "competitive procedures for competitions among private and public sector entities" whenever DOD contemplates changing the performance of public depot workloads of \$3 million or more to contractor performance.

Neither 10 U.S.C. 2469 nor the other statutes governing public-private competitions for depot workloads prescribe the specific elements that constitute a competition. Because the Air Force's Depot Competition Procedures use the competitive acquisition system, the standards in chapter 137 of title 10 of the United States Code (governing DOD acquisitions) and the FAR apply to the extent they are consistent with the basic public-private competition statutes.¹ Among other things, these standards require that the requirements in a solicitation be stated clearly and unambiguously and that restrictive provisions be included only to the extent necessary to satisfy an agency's needs. Further, under these standards, an agency must follow the criteria announced in the solicitation and exercise its judgment in a reasonable manner in determining which of the competing offers is to be selected.

Review Results

Based on our review of the C-5 competition, we found no basis to conclude that procedures used in selecting the successful offeror deviated in any material respect from the applicable laws or relevant provisions of the FAR. The Air Force issued a solicitation providing for the participation of a public sector depot consistent with the requirement for public-private competition, and the solicitation was issued competitively in accordance with the FAR. Overall, the evaluation appeared to be reasonable, fair, and consistent with the solicitation and the Air Force's Depot Competition Procedures.

Private Sector Concerns

The private sector offerors raised several concerns about the conduct of the C-5 competition. A summary of their concerns and our conclusions follows.

Public-Private Cost Comparison

Private sector sources believe there is an inherent inequity in public-private depot competitions that is created by the solicitation of offers on a fixed-price basis because the government often pays for any cost overruns incurred by a public sector source from public funds. Because public and private sector entities are fundamentally different in

¹GAO bid protest decision Newport News Shipbuilding and Dry Dock Company, B-221888, July 2, 1986, 86-2 CPD 23.

this regard, agencies conducting public-private competitions are required to make a reasoned judgment as to the actual cost the government will incur if work is to be performed by a public depot. We believe that the procedures used in the C-5 competition reasonably addressed the issue of public sector cost accountability. Among other things, the solicitation required the public depot to certify that its offer represented the full costs of performance, and the Air Force conducted an extensive realism analysis of Warner Robins' cost proposal. The Defense Contract Audit Agency reviewed Warner Robins' cost proposal and its accounting and estimating systems, as required by the Air Force's Depot Competition Procedures.

Credit for Overhead Savings

Private sector participants in the C-5 competition believe that Warner Robins was unfairly advantaged when it was given a \$153-million cost credit to reflect expected savings in overhead costs. We found that, although the amount was large and became the primary determining factor in the selection of Warner Robins, it was properly used in the Air Force evaluation. The overhead savings evaluation was provided for in the solicitation and the Depot Competition Procedures, and we found that the Air Force followed the evaluation scheme in calculating the savings proposed by Warner Robins.

Evaluation of Risks

Private sector participants were concerned that the selection did not account for, or put a dollar value on, certain identified risks or weaknesses, in the respective proposals. The solicitation provided that the calculation of an offeror's total evaluated cost would include the dollar impact of significant discriminators based on identified proposal strengths, weaknesses, and risks. The evaluation record shows that, for the highest priority management factors, transition and production operations, the lowest cost private sector offeror received a low-risk rating while the public offeror approach was rated as a moderate risk. Overall, the private sector offeror was credited with more strengths under the management factors than was the public sector offeror. In the final selection decision, the source selection authority did not quantify the risk differences or all the strengths or weaknesses but only included adjustments representing discriminators based on reduction of flow days and a lack of capacity at one of Warner Robins' proposed facilities.

Under the applicable legal standards, a procuring agency has broad discretion to decide whether it will include any particular feature of a proposal in its cost calculations. In our view, the dollar valuation approach the Air Force adopted represented a reasonable exercise of its discretion under the solicitation. The solicitation did not explain in any detail how

dollar values were to be assigned, but left it to the Air Force to determine an appropriate approach. Further, our review of the evaluation record did not disclose that the Air Force's approach was uneven or unfair.

Public Sector Concern

Warner Robins officials stated that they were not permitted to include private sector firms as part of their proposed effort to perform the workload. Although Warner Robins won the competition, depot officials believe that the use of private sector support would have enhanced their competitiveness by providing a better way to perform the paint and depaint operations on the C-5 aircraft. According to Air Force officials, significant use of private sector support as part of the public offeror's proposal would have been inherently inconsistent with a public-private competition. Consequently, Warner Robins developed an alternative approach to perform the C-5 aircraft paint and depaint workload at its depot facilities.

This matter had no impact on the outcome of the C-5 competition, and it has been resolved for any future public-private competitions for workloads at the closing San Antonio and Sacramento depots by the 1998 Defense Authorization Act. The act added section 2469a to title 10, United States Code, which provides for special procedures for public-private competitions for the workloads at the two closing depots. The new section allows public sector offerors to use private sector firms as part of their proposed effort.

Contract Award Resulted in the Lowest Total Cost to the Government

The Warner Robins proposal after cost comparability adjustments, as provided for in the solicitation and the depot maintenance cost comparability handbook, was determined by the source selection authority to offer the lowest total evaluated cost to the government. Before the cost comparability adjustments, the Warner Robins proposal was higher than the lowest private sector proposal and was determined to represent a higher risk under the two most important management evaluation factors. Both the public and private competitors raised questions about the proposal's cost evaluation and adjustments. As stated above, our review of these adjustments in the context of compliance with applicable laws and regulations found them to be consistent with the solicitation and reasonable. We further examined the accuracy and soundness of the data and assumptions supporting a number of these adjustments. Except for a large adjustment for overhead savings, the adjustments we reviewed would not have affected the selection decision.

To determine whether adjustments made in the source selection evaluation were accurate and supported, we (1) discussed the selection process with cognizant Air Force and DOD officials, as well as the offerors; (2) reviewed the calculation methods for the various cost element estimates used in the cost evaluation; (3) compared the cost elements among offerors to test for reasonableness; (4) discussed the rationale for cost element treatment in the evaluation with the evaluation team members; and (5) discussed each offeror's assessment of cost element treatment in the evaluation and followed up on issues or concerns raised. Since several of these adjustments were presented to us as concerns, we briefly address each of these below.

Review Results

Our review of the proposal cost evaluation and adjustments showed that the award resulted in the lowest cost to the government given Air Force assumptions and conditions at the time of award.

Adjustment for Overhead Savings

Warner Robins' total evaluated cost—after adjustments—for the 7-year period was \$746,519,392. This amount included a \$153-million downward evaluation adjustment to reflect expected savings in overhead costs. This adjustment made Warner Robins' total evaluated cost about \$42 million less than the lowest private sector offeror's cost. Accordingly, the \$153-million overhead adjustment became the primary determining factor of the competition. The adjustment was large because the evaluation showed that Warner Robins, due to its excess capacity, could absorb the additional C-5 workload with no significant increase in total overhead costs and that the overhead was primarily a fixed-cost that would be incurred with or without the additional workload for the 7-year period. The savings were determined by calculating the reduced overhead charges to existing workloads resulting from adding the C-5 workload over the 7-year period.

Industry officials questioned Warner Robins' ability to achieve these savings. According to one private sector offeror, the Air Force did not clearly explain how the public offeror could achieve such large savings relative to the proposed cost for performing the workload.² Additionally, while stating that some savings may be achievable, contractors said the overhead savings estimate in the Air Force's cost evaluation was too high. Further, they considered this adjustment a reward for maintaining existing depot inefficiency. One private sector offeror characterized the overhead

²Prior to making cost adjustments, the evaluators determined each offeror's "customer cost"—in essence, its proposed price for performing the requirement, excluding material. Warner Robins' customer cost was \$434,378,781.

savings adjustment as the one factor that most favored the public depots, and said that unless this factor is changed, they may not participate in future public-private competitions.

The evaluation records show that the cost evaluators questioned the overhead savings initially proposed by Warner Robins and made downward adjustments to that amount. For example, the evaluators deleted workload hours included in the Warner Robins' savings calculations for work on the KC-135 aircraft because that requirement had not been committed to the Warner Robins facility. After extensive discussions with the offeror concerning the proposed overhead savings, the evaluators calculated that \$153,935,160 in savings could be attributed to the other workloads to be performed at the public facility during the performance of the C-5 requirement. These savings were primarily due to the more efficient use of the existing workforce and facilities, which before the addition of the C-5 workload had been underused.

We have reported that Air Force depots have significant excess capacity and that significant savings could be achieved by reducing this excess capacity. The excess capacity consists of both people and facilities. In addition to downsizing and streamlining depot operations, excess capacity can be reduced by bringing in additional workloads to achieve savings by spreading personnel and facility costs over a larger workload base. We also have reported that over \$200 million in overhead savings could be achieved annually by consolidating the closing San Antonio and Sacramento depots' workloads into remaining DOD depots.³

In calculating the overhead savings, the Air Force assumed that the excess capacity and overhead cost condition at Warner Robins would not otherwise be significantly reduced over the 7-year period. We did not explore the cost effectiveness of other potential measures and opportunities to reduce Warner Robins' excess capacity. As a result, given the Air Force's assumption and the excess capacity condition at the time of award, the projected overhead savings appear reasonable.

Cost of Facilities Capital Adjustment

Private sector offerors questioned a \$4.25-million upward adjustment made to their proposals. The adjustment was based on a \$104-million interest free mortgage grant to the Greater Kelly Development Corporation by the federal government. According to the Air Force, the interest free

³Air Force Depot Maintenance: Privatization-in-Place Plans Are Costly While Excess Capacity Exists (GAO/NSIAD-97-13, Dec. 31, 1996).

mortgage enabled the Corporation to subsidize the private offerors' lease below market levels. The private sector offeror stated that the lease costs charged by the local redevelopment authority were higher than those at comparable commercial locations. Further, the offeror stated that the high cost of operating at the privatized facility created a competitive disadvantage. Our review of the subsidy and the private sector offeror's lease cost data found that the Air Force's adjustment relating to the interest free loan was reasonable.

**Private Industry Questions
Government Depots'
Ability to Control Costs**

Private industry raised concerns about the public depot's ability to accurately control costs for the C-5 workload. According to industry aircraft maintenance officials, if an Air Force depot overruns its proposed costs, the Air Force recovers the cost overruns by charging higher rates to other depot customers. According to these officials, this means a higher cost to DOD and eventually the taxpayer pays.

Documentation prepared by the Warner Robins Center as a part of its C-5 proposal indicated that private sector concerns about the Warner Robins depot not being able to accurately control costs for the C-5 workload were not supported by the depot's performance in earlier public-private competitions. Warner Robins officials note that they demonstrated cost control for the \$64 million C-141 Center Wing Box Replacement Program, which was won in a public-private competition, by performing within 2 percent of the proposal cost. The Air Force considered this evidence as a part of its proposal evaluation.

The Air Force plans to ensure that Warner Robins performs at its proposed cost, and that the anticipated savings are achieved. For example, the Air Force plans to involve the Defense Contract Audit Agency and Defense Contract Management Command in ensuring the cost performance of the C-5 depot maintenance workload and to develop special tracking procedures to monitor and report cost, schedule, and performance data.

**Disputed Cost Adjustment
to Public Proposal**

Warner Robins questioned the Air Force's treatment of a \$20-million downward adjustment to its overhead costs. Warner Robins officials believe the adjustment may limit the Air Force's ability to accurately measure its cost performance. The Air Force concluded that the adjustment was necessary based on its evaluation of the proposal.

However, Warner Robins officials state that the Air Force misinterpreted the proposal.

In its initial proposal, Warner Robins noted the existence of overhead savings on the C-5 workload. The contracting officer questioned whether the overhead savings were already included in Warner Robins' proposed overhead rate. To preclude double counting the savings, the contracting officer requested that Warner Robins clarify its treatment of C-5 overhead savings. According to Air Force officials, Warner Robins' response did not adequately explain whether the C-5 overhead savings were included in its proposed rate. Consequently, the Air Force included a downward adjustment for the savings in its cost evaluation. Warner Robins officials maintained that they clearly communicated that all C-5 overhead savings had been included in its proposed overhead rate.

The Air Force maintains that the C-5 contracting officer made a sound decision at the time given the information provided by Warner Robins during the selection process. The adjustment, had it not been made, would not have affected the selection decision. If a corresponding post award adjustment is finalized, Warner Robins could have problems meeting its cost objectives in performing the workload. The Air Force has not made a final determination as to how to resolve this dispute.

Public Sector Questions Capital Depreciation Method Used

Warner Robins officials stated that the Air Force required them to use a depreciation method that resulted in a higher charge than depreciation methods the private sector was permitted to use. The Air Force required the public depots to depreciate proposed capital expenditures over the contract period, rather than the longer depreciation periods allowed the private sector offerors. According to Air Logistics Center officials, the depreciation requirement created a disadvantage for their offer. Ultimately, the Warner Robins' proposal did not include large capital expenditures and consequently, the impact of the Air Force's depreciation policy was not material to the selection.

This matter was included in the special procedures for future public-private competitions added by the 1998 Defense Authorization Act for workloads at the closing San Antonio and Sacramento depots. The procedures at 10 U.S.C. 2469a provide that to the maximum extent practicable, the cost standards used to determine depreciation of facilities and equipment should provide for identical treatment to public and private offerors.

Agency and Contractor Comments and Our Evaluation

Air Force and Defense Contract Audit Agency officials reviewed a draft of this report and provided oral comments. They generally agreed with the report. The Air Force spokesperson stated that the report accurately characterized and reflects the process and procedures the Air Force used in conducting the C-5 aircraft depot workload competition. The spokesperson specifically noted agreement with our statement that the Air Force could have taken a more expansive approach to dollarization. The Air Force spokesman added that due to the lessons learned from the C-5 aircraft competition, and legislative changes resulting from the fiscal year 1998 Defense Authorization Act, the processes and procedures that the Air Force will use in upcoming public-private depot competitions will be different. Both the Air Force and Audit Agency spokespersons suggested several technical changes for clarity and accuracy. We agreed on specific wording changes and incorporated them in the final report.

We also provided a copy of the draft report to relevant public and private sector participants in the C-5 competition. Warner Robins, the public sector participant, said that the report accurately reflected their concerns with the competition. However, they noted that while the report said the competition placed no limitation on the location, they were not able to propose accomplishing the 7-year contract using the depot facilities at the closing San Antonio Air Logistics Center beyond the July 2001 date when the Kelly realignment will be completed. We believe this does not reflect a limitation on the competition, but does reflect the fact that the public depot at San Antonio is closing pursuant to the BRAC.

Warner Robins also noted that despite their proposal being evaluated as moderate risk for transition and production, their C-5 transition and production operations are on schedule.

Private sector officials stated that given our reporting schedule, they did not have time to review and comment on the draft report.

Scope and Methodology

In conducting our work, we obtained information from and interviewed officials at Air Force Headquarters, Washington, D.C.; Headquarters, Air Force Materiel Command, Wright-Patterson Air Force Base, Ohio; the San Antonio Air Logistics Center, Kelly Air Force Base, Texas; and the Warner Robins Air Logistics Center, Robins Air Force Base, Georgia. We also discussed C-5 contracting issues with the two unsuccessful private sector offerors as well as Defense Contract Audit Agency officials.

To analyze the Air Force's decision to award the C-5 aircraft's programmed depot maintenance to the Warner Robins Air Logistics Center, we interviewed officials and collected relevant documents from Headquarters, Department of the Air Force; Headquarters, Air Force Materiel Command; and Air Force source selection team members, representatives from the three competing offerors, and the Defense Contract Audit Agency. To verify compliance of the C-5 competition and award with applicable laws and regulations, we reviewed the solicitation, proposed evaluation, and award in the context of applicable laws and regulations. To determine whether cost elements considered in the source selection evaluation were complete and reasonable, we discussed the selection structure with cognizant Air Force and DOD officials, as well as the offerors determined to be within the competitive range. We also reviewed the calculation methods for the various cost element estimates used in the award evaluation for reasonableness, and compared the cost elements between offerors to identify material drivers and to further test for reasonableness. We discussed with the evaluation team members their rationale for cost element treatment in the evaluation. We discussed with each competitive range offeror, their assessment of cost element treatment in the evaluation and followed up on issues or concerns raised. A listing of our related reports we have issued is provided at the end of this report.

We performed our review between October 1997 and January 1998 in accordance with generally accepted government auditing standards.

Please contact me at (202) 512-8412 if you or your staff have questions concerning this report. The major contributors to this report are listed in appendix IV.



David R. Warren, Director
Defense Management Issues

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Abbreviations

BEQ	Best Estimated Quantity
BRAC	Base Realignment and Closure Commission
CCH	Cost Comparability Handbook
CPD	Comptroller General Procurement Decision
DCAA	Defense Contract Audit Agency
DOD	Department of Defense
FAR	Federal Acquisition Regulation
GKDC	Greater Kelly Development Corporation
PDM	Programmed Depot Maintenance
RFP	request for proposal
SSA	Source Selection Authority
SSAC	Source Selection Authority Council
SSEB	Source Selection Evaluation Board

Summary of Our Depot Reporting Requirements Contained in the National Defense Authorization Act for Fiscal Year 1998

The National Defense Authorization Act for Fiscal Year 1998 includes the following depot-related reporting requirements for our office.

I. Report on DOD's Compliance With 50-Percent Limitation (section 358)

The act amends 10 U.S.C. 2466(a) by increasing the amount of depot-level maintenance and repair workload funds that the Department of Defense (DOD) can use for contractor performance from 40 to 50 percent and revises 10 U.S.C. 2466(e) by requiring the Secretary of Defense to submit a report to Congress identifying the percentage of funds expended for contractor performance by February 1 of each year.

Within 90 days of DOD's annual report to Congress, we must review the report and submit our views to Congress on whether DOD has complied with the 50-percent limitation.

II. Reports Concerning Public-Private Competitions for the Depot Maintenance Workloads at the Closing San Antonio and Sacramento Depots (section 359)

The act adds section 2469a to title 10 of the United States Code, which provides for special public-private competition for workloads at these two closing depots. It also requires us to issue reports in four areas.

First, the Secretary of Defense is required to submit a determination to Congress if DOD finds it necessary to consolidate workloads into a single solicitation. We must report our views on the DOD determination within 30 days.

Second, we are required to review all DOD solicitations for the workloads at the San Antonio and Sacramento centers and report to Congress within 45 days of the solicitations' issuance regarding whether the solicitations provide "substantially equal" opportunity to compete without regard to performance location and is otherwise in compliance with applicable laws and regulations.

Third, we must review all DOD awards for the workloads at the two closing Air Logistics Centers and report to Congress within 45 days of the contract award on whether (1) the procedures used complied with applicable laws and regulations and provided a "substantially equal" opportunity to compete without regard to performance location; (2) "appropriate consideration was given to factors other than cost" in the selection; and

(3) the selection resulted in the lowest total cost to DOD for performance of the workload.

Fourth, within 60 days of its enactment, the 1998 Defense Authorization Act requires us to review the C-5 aircraft workload competition and subsequent award to the Warner Robins Air Logistics Center and report to Congress on whether (1) the procedures used provided an equal opportunity for offerors to compete without regard to performance location, (2) are in compliance with applicable law and the Federal Acquisition Regulation (FAR), and (3) whether the award results in the lowest total cost to DOD.

III. Report on the Navy's Practice of Using Temporary Duty Assignments for Ship Maintenance and Repair (section 366)

The act requires us to report by May 1, 1998, on the Navy's use of temporary duty workers to perform ship maintenance and repair at homeports not having shipyards.

San Antonio and Sacramento Air Logistics Centers' Closure History

The 1995 Base Realignment and Closure (BRAC) Commission recommended closing the Sacramento and San Antonio Air Logistics Centers and transferring their workloads to the remaining depots or private sector commercial activities. In making these recommendations, the Commission considered the effects on the local communities, workload transfer costs, and potential effects on readiness and concluded that the savings and benefits outweighed the drawbacks. The Commission's report noted that given the significant amount of excess depot capacity and limited DOD resources, closure is a necessity. Further, closing these activities would improve the use of the remaining centers and substantially reduce DOD operating costs. The specific Commission recommendations were as follows:

- Realign Kelly Air Force Base, including the air logistics center; disestablish the defense distribution depot; consolidate the workloads to other DOD depots or to private sector commercial activities as determined by the Defense Depot Maintenance Council;¹ and move the required equipment and personnel to the receiving locations.
- Close McClellan Air Force Base, including the air logistics center; disestablish the defense distribution depot; move the common-use ground communication electronics to Tobyhanna Army Depot, Pennsylvania; retain the radiation center and make it available for dual use and/or research, or close as appropriate; consolidate the remaining workloads with other DOD depots or private sector commercial activities as determined by the Council; and move the required equipment and any required personnel to receiving locations. All other activities and facilities at the base will close.

In considering the BRAC recommendations to close the two centers, the President and the Secretary of Defense expressed concerns about the near-term costs and potential effects on local communities and Air Force readiness. In response to these concerns, the administration, in forwarding the Commission's recommendations to Congress, indicated that the air logistics centers' work should be privatized-in-place or in the local communities. He also directed the Secretary of Defense to retain 8,700 jobs at McClellan Air Force Base, which had been recommended for closure, and 16,000 jobs at Kelly Air Force Base, which had been recommended for realignment, until 2001 to further mitigate the closures' impact on the local communities. Additionally, the size of the workforce

¹The Defense Depot Maintenance Council is a senior-level council established to advise the Deputy Under Secretary of Defense for Logistics on depot maintenance within DOD.

remaining in the Sacramento and San Antonio areas through 2004 was expected to remain above 4,350 and 11,000, respectively.

The Air Force initially focused on privatizing five prototype workloads—three at Sacramento (for hydraulics, electric accessories, and software) and two at San Antonio (for C-5 aircraft paint/depaint and fuel accessories). The Defense Depot Maintenance Council approved the Air Force's plans for the five prototype workloads on February 1, 1996. The prototype workloads involved about 11 percent of the San Antonio depot's maintenance personnel and about 27 percent of the Sacramento's personnel.²

Shortly after the Council approved the prototype program, the appropriateness of the concept began to be questioned. Community and industry groups expressed an interest in having larger packages, and DOD officials were concerned about the cost of administering a large number of smaller contracts.

Implementation of the prototype concept was put on hold in May 1996 as the Air Force considered various options. Further, in April 1996, we testified that privatizing depot maintenance activities, if not effectively managed, including the downsizing of remaining DOD depot infrastructure, could exacerbate existing excess capacity problems and the inefficiencies inherent in underused depot maintenance capacity. Privatizing workloads in place at two closing Air Force depots does not reduce the excess capacity in the remaining depots or the private sector and consequently, is not a cost-effective approach to reducing depot infrastructure.³ Later that year, we reported that privatizing-in-place, rather than closing and transferring the depot maintenance workloads at the Sacramento and San Antonio air logistics centers, would leave a costly excess capacity situation at remaining Air Force depots that a workload consolidation would have mitigated.⁴ Our analysis showed that transferring the depot maintenance workloads to other depots could yield additional economy and efficiency savings of over \$200 million annually.

²The BRAC report specified that the Council should determine where depot maintenance workloads from closing Air Force depots should be moved.

³Defense Depot Maintenance: Privatization and the Debate Over the Public-Private Mix (GAO/T-NSIAD-96-146, Apr. 16, 1996) and (GAO/T-NSIAD-96-148, Apr. 17, 1996).

⁴Air Force Depot Maintenance: Privatization-in-Place Plans Are Costly While Excess Capacity Exists (GAO/NSIAD-97-13, Dec. 31, 1996).

We recommended that the Secretary of Defense require the Secretary of the Air Force to take the following actions:

- Before privatizing any Sacramento or San Antonio workloads, complete a cost analysis that considers the savings potential of consolidating the Sacramento and San Antonio depot maintenance workloads at other DOD depots, including savings that can be achieved for existing workloads by reducing overhead rates through more efficient capacity utilization and reduction of fixed overhead that is applied to each production unit at underused military depots that could receive this workload.
- Use competitive procedures, where applicable, for determining the most cost-effective source of repair for workloads at the closing Air Force depots.

In August 1996, the Air Force announced a revised strategy for allocating the depot workloads at the Sacramento and San Antonio centers, which involved several large consolidated work packages, essentially one at Sacramento and two at San Antonio (one for the C-5 aircraft and one for engines). In December 1996, the Air Force issued procedures to conduct public-private competitions for the workloads and to allow one of the remaining public depots to compete with the private sector for each of the three workload packages. The Air Force's procedures included an evaluation adjustment to public and private sector proposals for overhead savings to other government workloads.

In February 1997, the Air Force issued a request for proposals for the C-5 aircraft depot maintenance workload. In September 1997, the Air Force awarded the C-5 workload to the Warner Robins Air Logistics Center based on lowest total evaluated cost.

Legal Review of Competition for the C-5 Aircraft Workload

On February 11, 1997, the Air Force, Aircraft Directorate at Kelly Air Force Base, issued a request for proposal (RFP) for the purpose of conducting a public-private competition for the C-5 aircraft business area workload being performed at the closing San Antonio Air Logistics Center at Kelly. The Air Force received proposals from private sector offerors and from one public offeror—the Air Force's Warner Robins Air Logistics Center. Following technical and cost evaluations, the Air Force selected Warner Robins to perform the C-5 workload on the basis that its proposal represented the lowest total evaluated cost to the government.

Section 359 of the National Defense Authorization Act for Fiscal Year 1998, Public Law 105-85, requires that we, among other things, determine whether the procedures used to conduct the competition for the C-5 aircraft workload were in compliance with applicable laws and the FAR. Based on our review of the procedures the Air Force used to conduct the C-5 competition in the context of concerns that were raised by the private sector, we found no basis to conclude that the procedures used in selecting the successful offeror deviated in any material respect from the applicable laws or relevant provisions of the FAR.

The following sections describe the legal standards applicable to the C-5 competition, relevant aspects of the solicitation and evaluation procedures used by the Air Force, and our analysis of those procedures under the applicable legal standards.

Applicable Legal Standards

The basic authority for the C-5 competition is 10 U.S.C. 2469, which provides for the use of "competitive procedures for competitions among private and public sector entities" when DOD contemplates changing the performance of a depot workload, valued at \$3 million or more, to contractor performance. In addition, section 8041 of the Department of Defense Appropriations Act for Fiscal Year 1997, Public Law 104-208, authorizes public-private competitions for depot workloads as long as the "successful bids" are certified to "include comparable estimates of all direct and indirect costs for both public and private bids." Both provisions state that Office of Management and Budget Circular A-76 is not to apply to the competitions. Other than the reference in section 8041 of the act to the use of comparable estimates of all costs, neither provision prescribes the elements that constitute a competition. Further, 10 U.S.C. 2470

provides that DOD depot-level activities are eligible to compete for depot workloads.¹

The Air Force implements these authorities through the Air Force Materiel Command, Procedures for Depot Level Public-Private Competition, December 20, 1996 (Depot Competition Procedures). Among other things, the procedures provide for issuing a solicitation calling for offers from public and private sector sources and they establish the criteria for deciding how the Air Force will select a source for the performance of depot workloads from the private or public sector. According to these procedures, a competitive solicitation is to be issued in accordance with the applicable provisions of the FAR. The FAR sets forth uniform policies and procedures for the competitive acquisition system used by all executive agencies and implements the provisions of chapter 137 of title 10 of the United States Code, which govern DOD acquisitions.

This use of the competitive acquisition system subjects a depot workload competition to the applicable provisions of chapter 137 and the FAR to the extent that they do not conflict with the public-private competition statutes cited above. (Newport News Shipbuilding and Dry Dock Company, B-221888, July 2, 1986, 86-2 CPD 23.) Further, aspects of a competition that fall outside the competitive acquisition system's parameters as defined by chapter 137 and the FAR, such as the selection of the public depot offeror to participate in the competition, are governed by the statutes applicable to public-private depot competitions as implemented by the Depot Competition Procedures.

In general, the standards in chapter 137 and the FAR (1) require that a solicitation clearly and unambiguously state what is required so that all offerors can compete on an equal basis and (2) allow restrictive provisions to be included only to the extent necessary to satisfy an agency's needs. Further, under these standards, an agency must follow the criteria announced in the solicitation and exercise its judgment in a reasonable manner in determining which of the competing offers is to be selected.

¹There are other provisions that apply, generally, to conversions of DOD functions to private sector performance. For example, section 8015 of the 1997 DOD Appropriations Act requires that DOD certify its in-house estimate to congressional committees before converting any activity performed by more than 10 civilian employees to contractor performance; 10 U.S.C. 2461 requires cost studies and congressional notification for certain conversions. The competition in this case did not result in a conversion to private sector performance. In addition, 10 U.S.C. 2462 generally requires DOD to contract with the private sector if a source can provide the supply or service at a lower cost than DOD can and to ensure that all costs considered in a cost comparison are realistic and fair. The competition here resulted in the conclusion that the public sector source was less costly than the private sector sources.

(Dimensions International/QSOFT, Inc. , B-270966.2, May 28, 1996, 96-1
CPD 257.)

Solicitation

The RFP for the C-5 workload contemplated the award of a fixed-price requirements type contract, with economic price adjustment and award fee, for a 7-year term. The contract was to include a transition period; an assumption of work in process that had been begun by the government at Kelly Air Force Base; and the scheduled workload for fiscal years 1998 through 2004, including any "over and above" work.² According to the solicitation, the public-private competition was to be conducted pursuant to FAR part 12, which prescribes the policies and procedures for the acquisition of commercial items, and FAR part 15, which sets forth the source selection procedures for competitive negotiated acquisitions. Further, the solicitation provided that the selection would be governed in part by the Defense Depot Maintenance Cost Comparability Handbook (CCH), dated August 10, 1993, and its interim amendments dated December 21, 1995, and December 4, 1996, as well as by the Depot Competition Procedures.

The RFP stated that the award would be made to the public offeror if its proposal conformed to the RFP, showed that it had the necessary technical capabilities, and represented the lowest total evaluated cost over the life of the requirement. On the other hand, if one of the private offerors' proposals represented the lowest evaluated cost and had these same technical characteristics then that offeror would receive the award. Finally, if two or more private offerors' proposals were acceptable and each represented a lower cost than the public offeror's proposal, the award would be made to the private offeror judged to represent the best value to the government based upon a combined assessment of cost and other technical factors not considered discriminators (distinguishing factors) in the initial evaluation, as well as certain other factors.

The RFP evaluation criteria that were to be used for the selection consisted of management criteria, which relate to program characteristics; a risk assessment; cost criteria, which relate to the proposed cost; and general considerations. Management criteria were made up of five factors: transition, production operations, corporate operations, logistics support, and source of repair qualification. The risk assessment consisted of two parts: proposal risk and performance risk. Proposal risk was to measure

²"Over and above" work consists of work items that are not included in the scope of the line item requirements in the solicitation but are within the overall scope of the proposed contract and may be ordered by the agency on an hourly basis.

the risk associated with an offeror's proposed approach to accomplishing the solicitation requirements relating to each of the five management factors. Performance risk was to assess, based on an offeror's present and past performance, the probability of the offeror successfully accomplishing its proposed effort. General considerations were to relate to matters such as the results of preaward surveys.

Cost was to be evaluated by first conducting realism and reasonableness assessments of the cost proposals.³ Then each offeror's total alternative cost was to be developed by applying numerous adjustments made to the proposals in accordance with the CCH and the RFP. Next, each offer's total evaluated cost was to be determined by adjusting the total alternative cost to reflect the evaluators' quantification or "dollarization"⁴ of the significant discriminators among the proposals based upon strengths, weaknesses, and risks identified in the proposals in accordance with the RFP evaluation criteria. Under the RFP evaluation scheme, in order for the technical merits or risks associated with an offeror, or an offeror's particular approach to performing the workload, to affect whether a public or private source is to be selected—assuming the minimum standards were met by both—the merits or risks were to be "dollarized" or quantified and included in the calculation of the offeror's total evaluated cost.

The proposals were evaluated in the first instance by specialized teams, which reported to a Source Selection Evaluation Board (SSEB), which in turn reported its conclusions to a Source Selection Advisory Council (SSAC). The SSAC then advised the Source Selection Authority (SSA), who made the final selection decision on the merits of the proposals.

Evaluation of Proposals

Four offerors submitted proposals in response to the solicitation. Warner Robins Air Logistics Center, the public depot chosen by the Air Force to submit the public sector offer, proposed to perform the work at Robins Air Force Base, Georgia. The three private sector offerors all proposed to perform the work at the facilities at the closing Air Logistics Center at Kelly Air Force Base, where the C-5 workload is currently being performed by government employees.

³According to the RFP, realism was to be evaluated by assessing the compatibility of proposal costs with the offeror's proposed scope and effort. Reasonableness was to be assessed through an analysis of either the cost elements or of the overall price.

⁴Dollarization, as we understand it, is the process of assigning an estimated dollar value to the evaluator's assessments of the benefit or detriment to the Air Force that would result from aspects of the offeror's technical proposal for the purpose of calculating an offeror's total evaluated cost.

Initially, the four proposals were evaluated to determine which was to be included in the competitive range in accordance with FAR 15.609 and considered for award.⁵ One of the proposals from the private sector was eliminated from the competitive range and not considered further because, in the SSA's view, it failed to adequately address the solicitation requirements.⁶

Discussions were held with the three offerors remaining within the competitive range. As a result of the discussions, each offeror revised its proposal and submitted a best and final offer, which was the subject of the Air Force's final cost adjustments and evaluation. Based on the results of the evaluations and cost adjustments, the advice of the SSAC, and the SSA's own analysis in the context of the RFP evaluation criteria, the SSA decided that the Warner Robins Air Logistics Center's proposal met all of the RFP requirements and represented the lowest total evaluated cost at \$746,519,392⁷ for the 7-year requirement. Consequently, the SSA selected Warner Robins to perform the C-5 workload. Of the three offerors within the competitive range, two of them, the winning public sector offeror—Warner Robins—and one of the private sector offerors (offeror A), had evaluated costs that were reasonably close. The other private sector offeror (offeror B) had considerably higher evaluated costs.⁸

Technical Evaluation

As noted previously, the solicitation stated that five factors would be used to evaluate the offerors' management approach. The priority of these factors—except for corporate operations and logistics support, which were co-equal—was (1) transition, (2) production operations, (3) corporate operations, (4) logistics support, and (5) source of repair qualifications. The SSA rated the proposals under each of the five factors.

⁵FAR 15.609 provides that the contracting officer shall determine which proposals are in the competitive range for the purpose of conducting written or oral discussions.

⁶The firm, whose proposal was excluded from the competitive range, filed an action in the U.S. Court of Federal Claims contending that its proposal was improperly eliminated from the competition. The court dismissed the action, concluding that the Air Force's action in eliminating the proposal from the competitive range had not been shown to be improper. *Aero Corp., S.A. v United States*, 38 Fed.Cl. 739 (1997).

⁷The SSAC report cited the total evaluated cost as \$746,518,032. We understand that the \$746,519,392 figure cited by SSA is the correct cost. The figure used by SSAC was the result of a calculation error. The error had no impact on the selection, so we will use the corrected cost.

⁸While we have carefully reviewed the Air Force's evaluation of all of the offerors, our description of the evaluation results focuses principally on the two most competitive offerors.

The first factor, transition, was to measure the offeror's approach to transferring program responsibility and accountability from Kelly Air Force Base to the new operation, including such tasks as manpower build-up, material procurement, and production ramp-up. Under this factor, the SSA concluded that offeror B had the best approach to transferring performance of the workload to its proposed facility, with an exceptional technical rating and low proposal risk. Offeror A was next, with an acceptable technical rating and a low proposal risk. Warner Robins followed with an acceptable rating and a moderate risk. The SSA noted that while Warner Robins' approach posed a moderate risk, it did meet the minimum standard and, in fact, offered a strength in the availability of skilled workers. Overall, the SSA concluded that the strengths of the approaches of offerors A and B increased the chances of success but did not offer a specific cost impact that could be "dollarized" and, thus, have a positive impact on their total evaluated costs. On the other hand, according to the SSA, the cost impact of Warner Robins' weaknesses could be ameliorated with close monitoring. Consequently, the SSA decided not to include this as a matter for dollarization.

Under the production operations factor, an offeror was to provide its plan to perform the work, including the proposed sequence for all major tasks and the identification of facilities and shops to be used. The SSA concluded that offeror A "far exceeded" the RFP minimum standard and merited an exceptional rating by proposing a significant reduction in the "flow days" (i.e., time required to perform the work) needed to maintain the aircraft over the life of the requirement. In addition, the SSA assigned the offeror a low-risk rating for its approach to the performance of the workload. Offeror B received an acceptable rating with low risk for its approach. The SSA assigned Warner Robins a marginal rating with moderate risk. The SSA was concerned that while Warner Robins proposed to reduce flow days, two of its facilities, the "programmed depot maintenance (PDM) facility" and the "paint/depaint facility," might not have the capacity to handle the workload within the proposed time frame. The SSA concluded that while close monitoring could overcome these difficulties, the production schedule could be disrupted. Accordingly, the SSA determined that the potential for problems in the paint/depaint facility should be reflected or dollarized as an added cost in the evaluation. The cost associated with the potential problems related to the PDM facility was, according to the SSA, already reflected in Warner Robins' cost proposal, and thus, was not added as a "dollarized" cost in the evaluation. In sum, the SSA concluded that the reduced flow days proposed by both offeror A and Warner Robins were significant discriminators and merited a downward dollarization cost

adjustment in the determination of total evaluated cost. The evaluation of Warner Robins' cost was, in addition, to include an estimated cost increase for the potential paint/depaint problems in its dollarization evaluation. Offeror B's proposal did not merit a dollarization cost adjustment in either direction.

Under the third factor (corporate operations), the SSA concluded that all offerors had extensive relevant experience and assigned each a rating of exceptional with a low proposal risk. Since all were equally rated, there was no discriminator and consequently no dollarization.

All of the offerors were rated by the SSA as acceptable and low risk under the logistics support factor. Again, there was no discriminator or corresponding dollarization adjustment.

Under the final factor (source of repair qualification), the SSA rated offerors A and B as exceptional with low risk. Warner Robins met the minimum standard and was assigned a rating of acceptable with low risk. There was, according to the SSA, no discriminator or dollarization.

As for the more general category of performance risk, all three proposals were determined to represent low risk in the management and cost areas, with no discriminators.

Cost Evaluation

As noted previously, the cost evaluation consisted of (1) an assessment of the realism and reasonableness of the cost proposals; (2) a determination of the "total alternative cost" of each proposal, calculated through adjustments required by the CCH and RFP; and (3) a determination of the total evaluated cost of each proposal, calculated by taking the total alternative cost and adjusting it to reflect the dollarization of significant discriminators among the proposals. The evaluation results for each of these analyses are summarized below.

Realism and Reasonableness Evaluation

The cost team evaluators initially reviewed each offeror's cost proposal to determine its completeness, realism, and reasonableness. As a result of this review, the evaluators ultimately were satisfied that each cost proposal met these standards. In accordance with the Depot Competition Procedures, the Defense Contract Audit Agency (DCAA) audited the Warner Robins' cost proposal and reviewed the public offeror's disclosure

statement⁹ and accounting and estimating systems. The disclosure statement was in the first instance found to be adequate. After discussions with Warner Robins and some adjustments to the cost proposal, the proposal was determined to be realistic.

DCAA also reviewed Warner Robins' accounting and estimating systems and found them deficient in certain respects. In an August 1, 1997, memorandum, DCAA noted that the deficiencies would not significantly affect Warner Robins' cost proposal. In a subsequent audit report—issued on November 26, 1997, after the selection of Warner Robins—DCAA stated that although most of the deficiencies in Warner Robins' accounting and estimating systems had been corrected, all of them had not been fully addressed. While Warner Robins had not met all the correction milestones at the time of its selection, the deficiencies remaining at that time, were not significant enough to preclude its selection.

Determination of Total Alternative Cost

The cost evaluators determined each offeror's total alternative cost by first calculating the offeror's "customer cost"—in essence, its proposed price for performing the requirement, excluding material—and then making upward and downward adjustments to this cost in accordance with the RFP and the CCH. Offeror A's customer cost was calculated to be \$409,042,577.

Warner Robins' customer cost was \$434,378,781.¹⁰ Offeror B's cost was considerably higher than either of these.

Using the customer cost for each offeror as a base, the evaluators made the depot maintenance comparability adjustments called for in the CCH and the RFP. Two sets of adjustments were made to the public and the private sector offers. The first set, required by form number 1 of the CCH, encompassed adjustments to the public sector offer; and the second set, required by form number 2 of the CCH, governed adjustments applicable to the public and private sector proposals. The comparability adjustments were identified either in the RFP directly or in the CCH.

⁹The Air Force Depot Competition Procedures require that public offerors provide a disclosure statement of their cost accounting practices.

¹⁰The calculation of Warner Robins' customer cost included a downward adjustment of \$20,302,485, which in the evaluators' view, represented overhead cost savings attributed by Warner Robins to the C-5 workload. The question of whether these savings were captured in the overhead rates in Warner Robins' proposal was the subject of a clarification request from the evaluators. Based on Warner Robins' response, the evaluators concluded that it was not, and consequently made the adjustment in calculating the depot's customer cost. Subsequently, after the selection, the Air Force concluded that the \$20,302,485 "savings" was, in fact, included in the rates to be charged for the work. This had no impact on the selection of Warner Robins because after the final cost calculations were made, the difference between the two lowest offerors was considerably larger than the evaluation credit.

The CCH form number 1 adjustments made to the Warner Robins' proposal included upward and downward changes in a number of categories.¹¹ The most significant were upward adjustments of \$19,887,441 for unfunded civilian retirement, \$18,872,571 for base operating support, and \$12,467,409 for employee casualty insurance. The net result of the upward and downward adjustments was an upward adjustment to the public depot's proposal of \$57,812,033. This resulted in an adjusted cost of \$492,189,454 for Warner Robins.

The CCH form number 2 adjustments were made to the private and public sector proposals.¹² Some adjustments were made to both types of proposals. For example, upward adjustments were made to both types for contract administration, additional overhead costs due to the new workload, reduction-in-force costs, and costs associated with the transition of government personnel (i.e., costs of retaining current C-5 workforce at Kelly that will be subject to a reduction in force and not be rehired by the new source after the workload is transitioned pending their separation). Most of these adjustments were similar in size for both proposals. The largest difference was in the transition of government personnel, resulting in an \$10,956,997 increase to Warner Robins' cost and an \$5,663,324 increase for offeror A.¹³

Other form number 2 adjustments applied solely to the private sector proposals. For example, a downward adjustment of \$12,271,277 was made to offeror A's proposal to represent the amount the firm would have to pay in income taxes on the contract proceeds. An upward adjustment of \$4,251,429 was made to reflect the firm's planned use of the facilities transferred by the Air Force to the Greater Kelly Development Corp. (GKDC). The transfer was under terms that were considered by the Air Force to result in a subsidy to GKDC, which it passed on through

¹¹Upward adjustments were made for state unemployment payments, unfunded civilian retirement, depreciation for military construction program facilities, casualty insurance, other recurring costs consisting of impact aid, retiree health benefits, base operating support, and other nonrecurring costs. Downward adjustments were made for military nondepot costs (time military members of depot staff spend on non-depot military duties) and for aircraft test flights imbedded in Warner Robins' rates.

¹²In view of the cost disparity between offeror B and the other two offerors, we will not detail the adjustments to offeror B's proposal.

¹³In addition, there were significant differences in adjustments made for the purpose of establishing a common evaluation base for each offeror's proposal for work in process during the transition period. One of these—the so called "best estimated quantity (BEQ)" adjustment—resulted in an upward adjustment of \$5,697,020 to Warner Robins' proposal and a downward change of \$4,407,697 in offeror A's proposal. In the related area of government transition of work in process, an upward adjustment of \$11,514,409 was made in offeror A's proposal, while an upward adjustment of \$5,503,497 was applied to Warner Robins' proposal.

advantageous lease rates to private firms, such as offeror A, proposing to perform work at the Kelly location.

The most significant of all of the adjustments made was a downward adjustment to Warner Robins' proposal of \$153,935,160. This represented the evaluators' estimate of the overhead savings that would be attributable to the other workloads performed by Warner Robins as a result of the addition of the C-5 workload to its currently underutilized facilities.

The net result of the form number 2 comparability analysis was a downward adjustment of \$57,229,727 to Warner Robins' proposal and a final upward adjustment of \$81,890,194 to offeror A's proposal. A cost of \$312,474,994 was added to each that represented the cost of material. This final cost adjustment resulted in a total alternative cost for Warner Robins of \$747,434,721 and for offeror A, a cost of \$803,407,765. The most significant single element contributing to the more than \$55,000,000 cost advantage for Warner Robins was the cost reduction made to reflect the depot's overhead cost savings.

Determination of Total Evaluated Cost

To arrive at the total evaluated cost of each proposal, the evaluators took the total alternative cost, as determined above, and applied the dollarization adjustments that were identified during the technical evaluation. The dollarization adjustments reflected the evaluators' assessments of the benefit or detriment to the Air Force that would result from aspects of the proposed performance considered to be discriminators among the proposals.

The one aspect of offeror A's proposal that was considered to be a significant discriminator suitable for quantification was its offer to significantly reduce the flow days to complete the work under the production operations evaluation factor. This resulted in a downward adjustment of \$14,560,019 in the evaluation of its total cost. Similarly, the evaluators concluded that Warner Robins' proposal to reduce flow days merited dollarization. The downward adjustment was tempered, however, by the evaluators' belief that the risk associated with the lack of capacity at Warner Robins' paint/depaint facility also qualified as a significant discriminator and, thus, a dollarization candidate: this time, for an upward adjustment. As a result of an upward adjustment of \$1,838,767 to represent the risk associated with the paint/depaint facility and a downward adjustment of \$2,755,456 representing the benefit to the Air Force of the reduced flow days proposed, Warner Robins' total cost was reduced by

\$916,689. The total evaluated costs for the two lowest offerors were \$746,519,392 for Warner Robins and \$788,847,746 for offeror A.¹⁴

Award

Based on the evaluation results, the SSA concluded that all of the offers were technically acceptable and that all three offerors were responsible. The SSA found the prices proposed by each, as adjusted through the cost analysis, to be reasonable and realistic.¹⁵ The SSA selected Warner Robins to perform the C-5 workload on the basis that its proposal represented the lowest total evaluated cost over the life of the requirement.

Analysis of Evaluation and Award

As discussed previously, several statutes govern the use of public-private competitions for the performance of depot workloads. In particular, 10 U.S.C. 2469 provides for the use of "competitive procedures for competitions among private and public sector entities" whenever DOD contemplates changing the performance of depot workloads of \$3 million or more to contractor performance. Neither 10 U.S.C. 2469 nor the other statutes governing public-private competitions for depot workloads prescribe the specific elements that constitute a competition. Because, however, the Air Force's Depot Competition Procedures use the competitive acquisition system, the standards in chapter 137 of title 10 of the United States Code and the FAR apply to the extent they are consistent with the basic public-private competition statutes. (See Newport News Shipbuilding and Dry Dock Co., cited above.)

Reviewing the C-5 competition in this context, we found no basis to conclude that the procedures used in selecting the successful offeror deviated in any material respect from the applicable laws or relevant provisions of the FAR. The Air Force issued a competitive solicitation in accordance with FAR parts 12 and 15, which provided for the participation of a public sector depot. Overall, the evaluation process appeared to be reasonable, fair, and consistent with the evaluation scheme in the solicitation, the Depot Competition Procedures, and the CCH.

¹⁴A dollarization adjustment was also made in offeror B's proposal. This was a downward adjustment reflecting the perceived benefit from offeror B's proposal of an additional warranty.

¹⁵In considering the cost evaluation results, the SSA made a final adjustment that did not change the order of the proposals. Specifically, the SSA requested an analysis of the possible impact of declining labor efficiencies at Kelly on each offeror's probable cost to complete the work already in process there. The analysis resulted in an upward adjustment of \$11,031,843 to Warner Robins' total evaluated cost, bringing it to \$757,551,235, and a corresponding increase of \$12,090,870 to offeror A's cost, for a new total of \$800,938,616.

The private sector has raised several specific concerns about the conduct of the C-5 competition. The concerns are that (1) there is an inherent inequity in public-private depot competitions created by the solicitation of offers on a fixed-price basis, since the government often pays for any cost overruns incurred by a public sector source from public funds; (2) Warner Robins was unfairly advantaged during the cost evaluation by the large cost credit representing projected overhead savings in its other workloads; and (3) the selection did not account for, or dollarize, identified risks and weaknesses in the proposals.

Public-Private Cost Comparison

Private sector representatives stated that the Air Force's solicitation of offers on a fixed-price basis revealed the inequity inherent in the procedures used in the C-5 public-private competition. According to industry representatives, the fixed-price concept is only relevant to private sector offerors who must assume the risk that their costs will be less than the price offered or they will incur losses. On the other hand, public sector offerors are subject to no contractually enforceable cost risk, as any overruns will simply be paid for by the government from public funds.

Public and private sector entities are fundamentally different; therefore, it is unlikely that a completely equal comparison of the projected costs of public and private sector performance of a particular function could be achieved. However, the cost comparison aspect of a public-private competition needs to be conducted in as fair a manner as practicable. To this end, our decisions involving public-private competitions have held that, to ascertain whether a public depot's costs are fairly stated and reasonable, an agency must make a reasoned judgment of the actual cost the government will incur if work is to be performed by the depot. (See Department of the Air Force; DCAA; Canadian Commercial Corporation/Heroux, Inc., B-253278, Apr. 7, 1994, 94-1 CPD 247.) Recognizing the concerns now being raised in the context of the C-5 competition, we have observed that, because a public source's cost overruns are paid for by the government, its arrangement to perform work is more closely analogous to a cost reimbursement type contract than to the fixed-price contract a private sector offeror is bound to perform. As a result, we have stated that in a solicitation for a fixed-price type contract, an agency must treat the public sector offer as if it were one for a cost type contract and subject it to a cost realism analysis in accordance with FAR 15.805-3. (See Newport News Shipbuilding and Dry Dock Co., cited above.)

In our view, the procedures used in the C-5 competition reasonably addressed the issue of public sector accountability for costs. Both the solicitation and the Depot Competition Procedures contained a number of provisions designed to ensure that Warner Robins' full costs were disclosed and supported. For example, the solicitation required the public sector offeror to certify that its offer represented the full cost of performance, subject to criminal penalties for false statements. Warner Robins included this certification in its proposal.

Also, under the Depot Competition Procedures, DCAA is required to provide an opinion that a public depot's proposal complies with the CCH, is not materially understated, and is acceptable for evaluation. These requirements are not applicable to private sector offers. In fact, the procedures state that proposals "submitted by private firms will generally not require auditing."¹⁶ In addition, the procedures mandate that proposals from both public and private offerors be supported by systems and procedures maintained by the offeror that are in accord with generally accepted accounting principles.

The evaluation record for the C-5 competition shows that the Air Force conducted an extensive realism analysis of the Warner Robins proposal, consistent with FAR 15.805-3 and the previously cited decisions. In this connection, the Air Force developed a pre-solicitation estimate of what it would cost to perform the requirement. The evaluators compared this figure with the overall cost proposed by the depot and reviewed individual cost elements. In addition, DCAA reviewed Warner Robins' disclosure statement and the depot's accounting and estimating systems.¹⁷ After extensive discussions, including a site visit, and a number of revisions to both the public offeror's proposal—including a number of upward adjustments—and its accounting and estimating systems, the SSA concluded that Warner Robins' proposal was realistic and reasonable. As required by section 8041 of the Department of Defense Appropriations Act for Fiscal Year 1997, Public Law 104-208, the SSA certified that the proposal

¹⁶The Depot Competition Procedures also contain provisions that are intended to ensure that public depots that are awarded workloads perform in accordance with the terms of the award. For example, there is a requirement for monitoring the depot's cost and schedule performance. According to the procedures, potential consequences for poor performance include a "show cause" procedure, which "could result in termination of the award and recompetition with the terminated depot being barred from the recompetition." An analysis of the process established in this competition to ensure the performance of the depot is discussed previously in this report.

¹⁷As discussed earlier, DCAA reported that while most of the deficiencies found in Warner Robins' accounting system had been remedied at the time of the selection, some remained. According to DCAA, the deficiencies did not have a significant impact on the Warner Robins' cost proposal and the few problems remaining at the time of the selection were not of sufficient magnitude to bar the selection.

included estimates of direct and indirect costs that were comparable to those in the other proposals.

Credit for Overhead Savings

Private sector sources expressed concern about the large amount—\$153,935,160—of projected overhead savings attributable to the public depot's other existing workloads. Although the amount was large and became the primary determining factor in the selection of Warner Robins, it was properly used in the evaluation by the Air Force.

The concept of assessing and evaluating the overhead savings attributable to an offeror's other government workloads resulting from the addition of the C-5 workload was spelled out in the solicitation and the Depot Competition Procedures. Specifically, both sources provided for an adjustment to be made to a public or private sector proposal for "identified and reasonable" overhead savings to other government workloads performed by the offeror that would be realized during the 7-year period.

The evaluation records show that the cost evaluators questioned the overhead savings initially proposed by Warner Robins and made downward adjustments in the amount originally proposed. For example, the evaluators deleted workload hours included in the Warner Robins' savings calculations for work on the KC-135 aircraft because that requirement had not been committed to the Warner Robins facility. After extensive discussions with the offeror concerning the proposed overhead savings, the evaluators calculated that \$153,935,160 could be attributed to the other workloads to be performed at the public facility during the performance of the C-5 requirement. These savings were primarily due to the more efficient use of the existing workforce and facilities, which before the addition of the C-5 workload had been underused.

The overhead savings credit was provided for in the solicitation and the Depot Competition Procedures, and the Air Force followed the evaluation scheme in calculating the savings proposed by Warner Robins. The size of the savings and their significance in Warner Robins' selection were due to the excess capacity that existed in Warner Robins' facilities and the underutilization of the existing workforce, to the fact that the savings were to be applied to a 7-year performance period, and to the fact that offeror A did not propose any similar overhead savings.

Dollarization of Evaluated Risks

Private sector firms raised concerns about the Air Force's failure to consider some of the evaluated risks in the respective proposals in its final selection decision.

The evaluation records show that under the two highest priority management factors, transition and production operations, offeror A received a low-risk rating while the public offeror's approach was rated as representing a moderate risk. Overall, offeror A was credited with more strengths under the management factors than was the public offeror. In the final selection decision, the SSA did not dollarize or quantify the risk differences or all the strengths or weaknesses but only included adjustments that represented discriminators based upon reduction of flow days and a lack of capacity at one of Warner Robins' proposed facilities. The result was that all of the superior risk or strength ratings given offeror A did not enter into the calculation of its total evaluated cost and were not a factor in the final selection.

The RFP provided that the calculation of an offeror's total evaluated cost would include "the dollarized impact of significant discriminators based on identified proposal strengths, weaknesses and risks." Since the RFP stated that these elements would be considered for inclusion in the dollarization, the Air Force had to do so. However, an agency has discretion to decide whether any particular feature of an individual proposal should or should not enter into cost calculations, and such decisions generally will not be questioned as long as they are fair, reasonable, and consistent with the solicitation. (See Universal Shipping Co., Inc., B-223905.2, Apr. 20, 1987, 87-1 CPD 424.) In our view, the dollarization approach adopted by the Air Force represented a reasonable exercise of its discretion under the RFP.

As noted previously, some evaluated risks for the two highest priority management factors were dollarized and reflected in the final selection decision, and some were not. Under the transition factor, the SSA noted that Warner Robins met the minimum standard, but that its approach of operating dual locations—Kelly and Robins Air Force Bases—for work performed during the transition period posed a moderate risk because of the close monitoring that would be required to avoid schedule disruption and performance degradation. On the other hand, the SSA stated that offeror A merited a low-risk rating because it had experience managing the type of transition it proposed. The SSA noted that the strength of offeror A's approach increased confidence that the transition would be successful, but did not offer "specific cost impacts or savings." The SSA expressed

concern regarding Warner Robins' approach but concluded that close monitoring should ameliorate any cost impact. The SSA determined that while offeror A's approach involved less risk than Warner Robins' plan, the difference would not have an impact on the cost of performance.

Under the production operations factor, the SSA concluded that offeror A far exceeded the minimum standard by proposing a low-risk approach that would significantly reduce the flow days needed to perform the work on the aircraft. The SSA considered this approach to be a significant discriminator offering a cost benefit to the Air Force. Thus, the offeror was given a dollarized cost credit in the evaluation. Similarly, Warner Robins was given an estimated cost reduction in the dollarization evaluation for its proposal to reduce flow days in processing the aircraft. This was tempered by a corresponding dollarization because the SSA concluded that the public offeror's moderately risky approach could in one respect—potential schedule conflicts in the use of its paint/depaint facility—result in a negative cost impact during performance. A similar problem involving potential schedule conflicts in the use of another Warner Robins' facility was not dollarized because the SSA concluded that the potential cost impact was already reflected in the proposed costs.

As these facts demonstrate, the Air Force evaluators took a conservative approach in implementing the dollarization concept announced in the RFP. The evaluation record indicates that they included only those elements that were judged to be discriminators among the proposals and would offer "specific cost impacts or savings." For example, if a proposal offered a plan to reduce a specific number of flow days, a feature that could be readily quantified, it was dollarized. On the other hand, more subjective elements of the evaluation, such as the overall risk of a particular approach, were not as susceptible to quantification and were not dollarized.

In our view, while the Air Force could have taken a more expansive approach to dollarization, it was within its discretion under the RFP to take the approach that it did. The RFP did not explain in any detail how dollarization was to be accomplished; the determination of an appropriate approach was left to the Air Force. Further, our review of the evaluation record disclosed nothing to suggest that the Air Force applied the dollarization approach it selected unevenly or unfairly. For example, both offeror A and Warner Robins were given dollarization credit for their plans to reduce the flow days needed to maintain the aircraft. Considering the subjective nature of such evaluation judgments and the discretion

Appendix III
Legal Review of Competition for the C-5
Aircraft Workload

procuring agencies have in this area, we believe that the Air Force's approach to dollarization was consistent with the solicitation and reasonable. (See URS Consultants, B-275068.2, Jan. 21, 1997, 97-1 CPD 100.)

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